

## Factors Affecting the Profitability of Limited-Resource and Other Small Farms

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"Factors Affecting the Profitability of Limited-Resource and Other Small Farms"

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by Ashok K. Mishra,  
Hisham S. El-Osta, and  
Cheryl J. Steele

For more information  
contact Ashok Mishra  
[amishra@ers.usda.gov](mailto:amishra@ers.usda.gov)  
or Hisham El-Osta at  
[helosta@ers.usda.gov](mailto:helosta@ers.usda.gov)

<http://www.ers.usda.gov>

**S**mall farms as defined by the National Commission on Small Farms constitute 90 percent of U.S. farms, contain 67 percent of farm land, and hold 77 percent of the farm sector's net worth. They also contribute significantly to rural economies as purchasers of inputs and supplies and as pre-

servers of the rural landscape. Additionally, many farm operators also work in nonfarm jobs. Under the 1996 Federal Agriculture Improvement and Reform Act (FAIR, 1996) farmers face greater risk of income volatility because of the likelihood of increased volatility in the prices they receive. An understanding of which farm and operator characteristics influence profitability would be useful to operators of limited-resource farms and other small farms who wish to make changes in their operations in order to increase profit. Such information will also be useful to policymakers who seek to design policies aimed at increasing the income of these farms.

Results from this study show that the best way for limited-resource and other small farms to become more profitable is to control their variable and fixed costs and lower their debt-to-asset ratio. Limited-resource and other small farm operators may also be better served if crop insurance-type programs are extended to livestock and other speciality crops. One strategy that could be used by beginning and limited-resource farms to increase farm profitability is to lease farm land and farm equipment, which minimizes the need for capital financing. Policymakers could design policies aimed at encouraging lenders and owners of capital inputs to make leasing more accessible by limited-resource farmers, thereby increasing limited-resource farmers' likelihood of financial success.

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